REPORT OF THE AUDIT OF THE BRACKEN COUNTY CLERK

For The Year Ended
December 31, 2006

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
BRACKEN COUNTY CLERK

For The Year Ended
December 31, 2006

The Auditor of Public Accounts has completed the Bracken County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by $609 from the prior year, resulting in excess fees of $10,107 as of December 31, 2006. Revenues increased by $117,014 from the prior year and expenditures increased by $116,405.

Report Comments:

- The County Clerk Should Comply With Federal And State Wage And Hour Laws
- The County Clerk's Office Lacks An Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits as of April 5, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $3,872

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Riggs, Bracken County Judge/Executive
The Honorable Rae Jean Poe, Bracken County Clerk
Members of the Bracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bracken County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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The Honorable Gary Riggs, Bracken County Judge/Executive
The Honorable Rae Jean Poe, Bracken County Clerk
Members of the Bracken County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Comply With Federal And State Wage And Hour Laws
- The County Clerk's Office Lacks An Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bracken County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

July 19, 2007

BRACKEN COUNTY
RAE JEAN POE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues		
State Grants		$ 2,338
State Fees For Services		4,427
Fiscal Court		5,149
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 193,295	
Usage Tax	485,735	
Tangible Personal Property Tax	625,415	
Liens	2,293	
Other-		
Fish and Game Licenses	6,687	
Marriage Licenses	2,726	
Occupational Licenses	918	
Deed Transfer Tax	17,329	
Delinquent Tax	94,240	1,428,638
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	7,105	
Real Estate Mortgages	18,055	
Chattel Mortgages and Financing Statements	25,687	
Affordable Housing Trust	4,999	
All Other Recordings	9,306	
Charges for Other Services-		
Candidate Filing Fees	1,940	
Copywork	2,427	69,519
Other:		
Miscellaneous	809	
Vehicle Transfer Record	9,792	10,601
Interest Earned		137
Total Revenues		1,520,809

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY
RAE JEAN POE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Payments to State:			
Motor Vehicle-			
Licenses and Transfers	$ 145,857		
Usage Tax	471,163		
Tangible Personal Property Tax	212,409		
Licenses, Taxes, and Fees-			
Fish and Game Licenses	6,518		
Delinquent Tax	9,090		
Legal Process Tax	7,534		
Affordable Housing Trust	4,999	$ 857,570	
Payments to Fiscal Court:			
Tangible Personal Property Tax	79,059		
Delinquent Tax	19,756		
Deed Transfer Tax	16,463		
Occupational Licenses	746	116,024	
Payments to Other Districts:			
Tangible Personal Property Tax	308,984		
Delinquent Tax	42,867	351,851	
Payments to Sheriff		625	
Payments to County Attorney		13,713	
Operating Expenditures and Capital Outlay:			
Personnel Services-			
Deputies' Salaries	88,743		
Materials and Supplies-			
Office Supplies	158		
Other Charges-			
Conventions and Travel	151		
Postage	3,613		
Miscellaneous	466		
Refunds	179		
Tax Bill Preparation	1,705		
Libraries and Archives Grant	2,338		
Capital Outlay-			
Hardware and Software Maintenance	5,578	102,931	
Total Expenditures			$ 1,442,714

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY
RAE JEAN POE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Net Revenues	$	78,095
Less: Statutory Maximum		64,388
Excess Fees		13,707
Less: Expense Allowance		3,600
Excess Fees Due County for 2006		10,107
Payments to Fiscal Court - February 9, 2007		10,107
Balance Due Fiscal Court at Completion of Audit	$	0

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 5, 2006, $3,872 of public funds was exposed to custodial credit risk as follows:

- Uncollateralized and Unsecured $3,872

Note 4. Grants

A. Department for Libraries and Archives - Microfilming

The County Clerk received a grant from the Kentucky Department for Libraries and Archives in the amount of $8,043 for microfilming. The term of the agreement was from July 1, 2005 through December 29, 2006. Due to the vendor not being able to complete the microfilming during the agreement period, an extension was provided through December 31, 2007. The unexpended grant balance was $8,043 as of December 31, 2006.

B. Department for Libraries and Archives – Preservation and Plat Cabinet

The County Clerk received a grant from the Kentucky Department for Libraries and Archives in the amount of $5,888 for preservation work and to purchase a plat cabinet. Funds totaling $2,338 were expended during the year. The unexpended grant balance was $3,550 as of December 31, 2006.

Note 5. Leases

A. Software Management - Software

The County Clerk entered into a lease agreement with Software Management, Inc. for software licensing and maintenance for the County Clerk's office. The agreement requires monthly payments for rental through November 30, 2006 of $250 per month. The agreement has been extended for an additional year.

B. Software Management - Hardware

The County Clerk entered into a lease agreement with Software Management, Inc. for hardware maintenance on the CCLIX Server, public access workstation, and system printer equipment. The agreement requires annual payments for rental through November 30, 2006, at which time the agreement can be automatically renewed in one-year increments. The agreement was extended for an additional year with payments of $256 per month.

C. Toshiba Financial Services – Copy Machine

The office of the County Clerk was committed to a lease agreement with Toshiba Financial Services for a copy machine. The agreement requires a monthly payment of $375 for 60 months to be completed on November 18, 2009. During 2006, the fiscal court made payments for the copy machine on behalf of the County Clerk's office and these payments are not reflected in the financial statements presented. The total balance of the agreement was $13,125 as of December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Riggs, Bracken County Judge/Executive
The Honorable Rae Jean Poe, Bracken County Clerk
Members of the Bracken County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bracken County Clerk for the year ended December 31, 2006, and have issued our report thereon dated July 19, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bracken County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bracken County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bracken County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks An Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bracken County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Comply With Federal And State Wage And Hour Laws

The Bracken County Clerk's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Bracken County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

July 19, 2007

COMMENTS AND RECOMMENDATIONS

BRACKEN COUNTY
RAE JEAN POE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The County Clerk Should Comply With Federal And State Wage And Hour Laws

During our review of payroll, we noted three employees were not paid at a rate of time and one-half after 40 hours of work during the calendar year. The deputies are paid on a salary basis. The Fair Labor Standards Act (FLSA) requires that all covered, nonexempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. Overtime pay earned in a particular workweek must be paid on the regular payday for the pay period in which the wages were earned. Earnings may be determined on a salary basis, but in all such cases the overtime pay due must be computed on the basis of the average hourly rate derived from such earnings. The overtime requirement may not be waived by an agreement between the employer and employees. Subsequently, the County Clerk reviewed her payroll over the entire year and will be working with the Kentucky Department of Labor to determine whether any overtime pay is due for the year under audit and the prior three years. Also, we recommend the County Clerk review all applicable federal and state wage and hour laws to ensure compliance. The matter will be referred to the U.S. Department of Labor and the Kentucky Department of Wage and Hour.

County Clerk's Response:

I spoke with [audit manager] and she referred me to the Labor Board. I have already met with them and we will be finalizing all payroll records from 2004 through 2006. I will pay my girls whatever is due to each of them.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks An Adequate Segregation Of Duties Over Receipts And Expenditures

All employees of the County Clerk's office collect receipts. The County Clerk or assigned deputy prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The County Clerk or a deputy also prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers as well as preparing checks for all disbursements including payroll and posts to the disbursements ledger. All employees of the County Clerk's office can sign checks, and the County Clerk does not require dual signatures on checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The County Clerk should either segregate these duties or perform the following steps to strengthen internal controls:

- The County Clerk should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger when prepared by another employee. Any differences noted should be reconciled. The County Clerk should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The County Clerk should review the quarterly financial report and compare amounts reported to the receipts and disbursements ledger prepared by one of the Deputy Clerks.

BRACKEN COUNTY
RAE JEAN POE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:
(CONTINUED)

The County Clerk's Office Lacks An Adequate Segregation Of Duties Over Receipts And Expenditures (Continued)

- Bank accounts should be reconciled regularly and reviewed by someone independent of recording to ledgers.
- Dual signatures should be required on all checks, with the County Clerk being one of the required check signers.

County Clerk's Response: No Response.

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PRIOR YEAR:

The County Clerk's Office Lacks An Adequate Segregation Of Duties – Repeated.